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CURRENT SUPPORT BRIEF

FULFILLMENT OF THE 1960 ECONOMIC PLANS IN THE EUROPEAN SATELLITES

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FULFILLMENT OF THE 1960 ECONOMIC PLANS IN THE EUROPEAN SATELLITES

Preliminary data show that the rate of economic growth in the European Satellites slowed in 1960 and probably fell below the rate in Western Europe for the first time since 1956. Increases in Satellite industrial output, though still large, were significantly smaller than in 1959 in three countries, and the usual difficulties were experienced throughout the area in expanding agricultural production and construction activity. Hungary and Poland approximated the rapid growth rates of 1959 in their foreign trade (at the cost in Hungary of an enlarged trade deficit), but appreciably lower rates for 1960 in Bulgaria and East Germany noticeably affected their industrial growth. Although Czechoslovakia, East Germany and Hungary seem to have made some progress in improving living conditions, little or no advance is indicated for Bulgaria and Rumania--where concentration of resources on capital investment was most intense--or for Poland.

Production and Investment

Industry was by far the most dynamic sector of the Satellite economies in 1960, as in most years. Increases in gross industrial production of 11 to 13 percent in Poland, Czechoslovakia, and Hungary were slightly higher than in 1959, and Rumania's increase of 17 percent--the largest in the area--considerably exceeded its 1959 rate.* The increase in East Germany was only about 8 percent, compared with 11 and 12 percent in 1958 and 1959; and the rates achieved in Bulgaria and Albania, while high, were little more than one-half as large as in 1959. Planned increases were not reached in East Germany or Bulgaria, contrary to the regimes' claims.

Nearly all the rise in industrial production in Poland and East Germany last year is attributable to the growth of labor productivity, which reached the highest rate of the past five years in Poland, but slipped somewhat below the impressive 1958-59 level in East Germany. Industrial employment increased significantly in all other Satellites except Albania, although higher labor productivity was in each case the dominant factor in industrial growth. In Rumania, additions to the stock of industrial assets--reportedly two-fifths more than in 1959--appear to have been especially important in industrial growth.

The investment drive of the last few years, undoubtedly an important factor in Satellite industrial growth, slowed down somewhat in 1960, and investment plans were not fulfilled in most of the countries. In Poland, the increase in gross fixed investment was only about 6 percent, as scheduled, and was limited by lags in construction and by the effort to reduce the foreign trade deficit through a sizable expansion of exports. Changes in Hungary's volume of investment in both 1959 and 1960 are still uncertain because of the effect of the 1959

*The officially claimed increases in gross industrial production in the Satellites usually should be reduced by 10 to 25 percent in making comparisons with the growth rates of Western countries.

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price reform on published data. It does seem clear, however, that the percentage increase in 1960 was much smaller than in 1959.

Investment rose 13 percent in Czechoslovakia, about as planned, and 9 percent in East Germany, a serious underfulfillment of the original 1960 objective. In East Germany, the growing gap between planned and actual levels of capital investment and last year's slower growth of industrial production and foreign trade obviously raise serious questions about the feasibility of economic objectives for 1965. Developments last year in the other Satellites appear to be more in keeping with their 1965 goals; a detailed examination of the long-term plans, however, may lead to similar doubts.

Bulgaria managed to raise centrally planned investment by only one-sixth rather than the planned one-fourth. Moreover, investment is to grow only 9 percent this year, so that the recent wage raises for about 1.4 million workers can be backed up by increased supplies for the consumer market. In its other aspects, too, Bulgaria's 1961 plan suggests that the "leap forward" campaign has served its purpose and that more moderate growth rates and more balanced economic development are in prospect.

The role of most ambitious economic planner among the Satellites has now been assumed by Rumania, which claims an increase of one-fourth in investment in 1960 and has scheduled a further rise of one-fourth in 1961. Targets for industrial and agricultural production this year are similarly bold. The motivation for this program, which implies considerable strain on the economy and a dim outlook for consumers, is far from clear at this time.

Because of the excessive weight given to industrial production in Satellite measurements of economic growth, the announced increases in national income usually exaggerate achievements. Bulgaria, Czechoslovakia and Rumania have announced increases over 1959 of 7 to 9 percent, and preliminary data for Hungary and Poland indicate increases of about 5 percent. In terms of the Western concept of gross national product (GNP) at factor cost, the 1960 growth rates in all these countries probably would fall within the range of 4 to 6 percent.

Agriculture contributed very little to the economic growth of the Satellites in 1960. The 5.4-percent increase in gross output claimed by Poland appears to be an exaggeration; the actual gain probably was closer to 3 percent. Gross agricultural output reportedly increased 7 percent in Czechoslovakia--to the highest level since the war, if true--but net output remained lower than in 1958 and probably did not surpass the 1955-59 average. The increase in East German output was small at best, and no increase at all is indicated for Hungary. In Bulgaria, which had scheduled a 32-percent rise in agricultural production and a similarly impressive growth rate for national income, output in agriculture probably rose less than 5 percent. The planned increases announced so far for agricultural production in 1961 are consistently higher than the average rates scheduled for 1961-65; presumably because below-average weather or problems associated with collectivization kept 1960 output below plan.

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Foreign Trade

Although the unusually rapid growth of Satellite foreign trade in 1959 was not maintained in 1960, substantial gains were achieved in most countries, and trade deficits were reduced in Poland and Bulgaria. Both Polish exports and imports exceeded plan, but exports grew much more rapidly to register the largest gain in many years. The 1960 trade deficit amounted to only \$169 million, or \$105 million less than in 1959. As prices of both imports and exports declined about 2 percent, there was essentially no deterioration of Poland's terms of trade for the first time in several years.

Bulgarian foreign trade turnover rose about 16 percent, or slightly more than planned; like other indicators of economic development in Bulgaria last year, this increase is small compared with that of 1959. An extraordinary 58-percent increase in imports in 1959 was followed by an increase of perhaps 5 or 6 percent in 1960. Exports grew by about one-fourth, however, and cut the trade deficit from \$111 million in 1959 to roughly \$25 million in 1960.

Hungarian foreign trade grew somewhat more rapidly in 1960 than the previous year, when there was an 18-percent increase. However, imports ran so far ahead of exports that the trade deficit grew by \$80-90 million. A remarkable 33-percent increase in turnover is reported by Rumania, whose trade grew very slowly from 1955 to 1959 in contrast to the trade of other Satellites. The rate of growth of Czechoslovak foreign trade declined somewhat from 1959 to 1960, and in East Germany the rate fell to 6 percent for total turnover (compared with 16 percent in 1959) and only 4 percent for turnover with Bloc countries.

Living Conditions

Because of the moderate size of the gains in gross national product last year and the claims of the investment and export programs, improvements in living conditions in the Satellites were either small or insignificant. As the rise in total consumption in Poland was about 1½ percent, consumption per capita was no higher than in 1959. Some small improvements in Polish living conditions are scheduled for the next few years, but the regime feels that investment needs and the trade deficit require a deferment of more generous gains for consumers until 1964-65. This policy obviously involves some risk of popular disturbances and can be expected to be modified if there are signs of trouble.

The relationship of the growth rates for national income and investment in Bulgaria implies a rather small increase in consumption per capita last year. Personal consumption continued to rise in East Germany, but the regime has been silent about matching West German consumption of important consumer goods by 1961, as once promised. This indicates that East Germany is not yet prepared to claim parity in consumption of textiles and shoes, although it has maintained for some time that per capita consumption of most basic food products is higher than in West Germany. In Czechoslovakia and Hungary, it appears that consumption per capita grew by several percentage points, even if official claims for 1960 are discounted somewhat.

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Fulfillment of Long-Term Plans

In all Satellites except East Germany and Rumania, 1960 marked the end of long-term plans. Bulgaria's proclamation of the completion of its Third Five-Year Plan (1958-62) after only 3 years not only serves as an effective propaganda sequel to the "leap forward", but also conveniently makes 1965 the final year for the current long-term plans of all the Satellites and the USSR. Bulgaria's action is only partially justified, however, by the performance of the economy. The regime claims that the 1962 goals for industrial production and retail trade were fulfilled last year and that the goal for foreign trade was considerably exceeded. Reference to the plan directives shows that the latter claim is not justified. The regime admits that its 1962 objectives for national income, gross fixed investment, agricultural production, and consumption were by no means achieved.

Rates of economic growth were comparatively high in Czechoslovakia and Poland during their recent Five-Year Plans (1956-60) and in Hungary during its Three-Year Plan (1958-60). According to the official announcements, annual increases in the national income of Czechoslovakia and Poland averaged about 7 percent--a little less than initially planned. Although Hungary's modest original goal for national income in 1960 was easily surpassed with an annual growth rate of slightly more than 6 percent, the much higher goal that the regime adopted in 1959 was not attained; the growth rate for 1956-60 is only about 5½ percent, because of the effects of the revolt. The estimated growth rates of 4 to 5½ percent for the gross national products of these countries in 1956-60 are quite similar to those of France, Italy, and West Germany.

Plans for the expansion of gross industrial production were carried out successfully in all three countries, and growth rates for net output probably were slightly higher than in the West European countries mentioned above. Goals in two other areas of high priority--investment and foreign trade turnover--were also reached or closely approached. While the extent of improvements in living conditions appears to be exaggerated in official announcements, it is clear that moderate gains were achieved in these three countries.

The increase in gross agricultural production in Poland, although less than the planned 25-percent gain, was the largest among the Satellites and was much larger than in Hungary and Czechoslovakia, where rapid collectivization took place. Agricultural growth in Hungary was much less than the scheduled increase of 12 percent. In Czechoslovakia, the planned increase in gross output was considerably reduced during the period--eventually to about 13 percent. Even this goal was not quite reached. In terms of net output, it is doubtful that there was any growth from 1955 to 1960.

The economic development of Bulgaria, Hungary, and Poland during their recent long-term plans was not based solely on their own resources and efforts; some of their progress is attributable to the receipt of foreign credits. The net import surplus amounted to roughly \$80 million for Hungary during 1958-60 (supplementing the import surplus

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of nearly \$200 million in 1957), about \$125 million for Bulgaria in the same period, and more than \$900 million for Poland during 1956-60. It remains to be seen how successfully these countries can handle their economic problems and can maintain the desired high rates of growth after payments on these debts have begun.

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